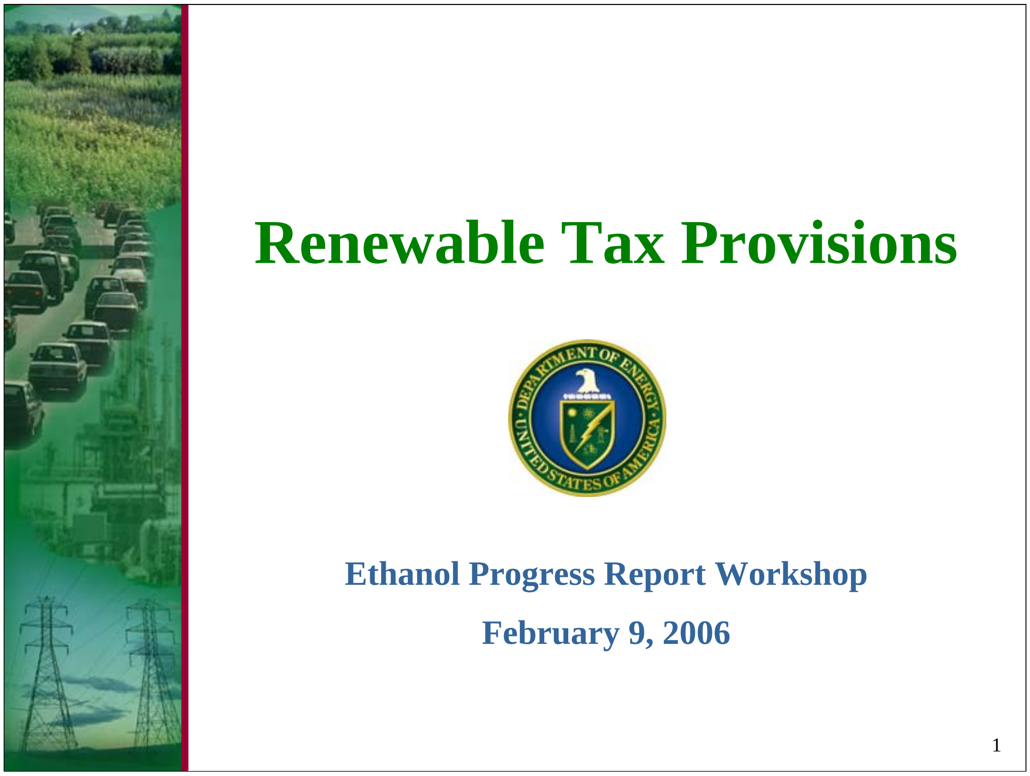

Before I go into my presentation which will be on the Government's Renewable Tax Provisions, I just want to share with you information which I had read recently since I found them quite interesting.

- U.S. energy consumption is projected to increase by 32 percent by 2020.
- Our nation's dependence on foreign sources of oil is at all-time high and is expected to grow and it is the nation's largest source of primary energy.
- 68% of the nation's oil goes to transportation fuels.
- Development of alternative fuels such as ethanol and other biofuels can help diversify the transportation sector.
- Ethanol is already making a significant contribution in displacing more oil than any other alternative fuel.

The Department of Energy is committed to reducing America's dependence on foreign oil and developing energy efficient technologies for buildings, homes, transportation, power systems and industry. I am with the Office of Energy Efficiency and Renewable Energy and its mission is to strengthen America's energy security, environmental quality, and economic vitality in public-private partnerships that make a difference in the everyday lives of Americans by enhancing their energy choices and their quality of life. Program activities at the Department are conducted in partnership with the private sector, state and local government, DOE laboratories, universities and other stakeholders. We can not do it alone. It takes all of you.

2004 and 2005 were good years for the ethanol industry. In 2004, the American Jobs Creation Act was signed into law, and it made important improvements to the ethanol tax incentive. In 2005, the Energy Policy Act was finally signed into law by the President on August 8, and it provided many important incentives for ethanol.

Topics

- Volumetric Ethanol Excise Tax Credit
- Promoting Greater Use of E-85
- Renewable Fuel Standard

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The three topics which I will cover are:

- Volumetric Ethanol Excise Tax Credit
- Promoting Greater Use of E-85
- Renewable Fuel Standard

Volumetric Ethanol Excise Tax Credit (VEETC)

- **Established in American Jobs Creation Act of 2004**
- **Gasoline marketers can claim tax credit**
- **Replaces the federal ethanol excise tax credit with an excise tax credit**
- **Maintains the ethanol incentive at 51 cents per gallon of ethanol used in fuel**
- **Extends tax incentive through December 31, 2010**

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The **Volumetric Ethanol Excise Tax Credit**, or VEETC, was created by the American Jobs Creation Act of 2004. VEETC maintains the ethanol incentive at 51 cents per gallon of ethanol used in fuel, but replaces the previous excise tax exemption with an excise tax credit which can be taken by gasoline marketers and blenders. The tax incentive goes through December 31, 2010.

It also does the following:

- Improves our nation's transportation infrastructure, because the full amount of user excise taxes levied will be collected and remitted to the Highway Trust Fund (HTF).
- Streamlines the excise tax collection process when ethanol is blended with transportation fuels;
- Creates a simplified system of excise tax collection.
- Provides new market opportunities for ethanol, biodiesel, and E-85 in off-road and other taxable markets.

Promoting Greater Use of E-85

- Requires that Federal Fleets Actually Use Alternative Fuels in their Alternative Fuel Vehicles.
- Calls on the Secretary of the Department of Energy to Make Grants and Issue Contracts to Encourage the Advancement of Hybrid-Flexible Fuel Vehicles.
- Small Ethanol Producer Credit
- Tax Credit for E85 Infrastructure

The Energy Policy Act of 2005 promotes greater use of E-85 by:

- Requiring the Federal fleets to use alternative fuels in their Alternative Fuel Vehicles.
- Calling on the Secretary of the Department of Energy to make grants and issue contracts to encourage the Advancement of Hybrid-Flexible Fuel Vehicles.
- Including Small Ethanol Producer Credit – more information will follow
- And also Tax Credit for E85 Infrastructure – will be addressed in a little bit

Small Ethanol Producer Credit

- Revised in Energy Policy Act of 2005
- Allows a 10-cents per gallon production income tax credit
- Size of plant eligible for tax credit increased from 30 million gallons to 60 million gallons
- Tax credit can be taken on first 15 million gallons of production
- Tax credit is capped at $1.5 million per year per producer
- Sunsets December 31, 2008

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This credit would allow a 10-cent per gallon production income tax credit for up to 15 million gallons of production annually. The size limitation on the production capacity for small ethanol producers increases from 30 million to 60 million gallons. The tax credit can be taken on the first 15 million gallons of production. The tax credit is capped at $1.5 million per year per producer. Sunset date is the end of 2008.

Tax Credit for E85 Infrastructure

- **Established in Energy Policy Act of 2005**
- **Permits taxpayers to claim a 30% credit for refueling infrastructure up to $30,000**
- **Effective for property placed in service December 31, 2005 and before January 1, 2008**
- **Credit may not be claimed for property placed in service after December 31, 2007**

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The Energy Policy Act of 2005 created a new credit that permits taxpayers to claim a 30% credit for the cost of installing clean-fuel vehicle refueling equipment (for example, E85 ethanol pumping stations) up to $30,000. The provision is effective for property placed in service December 31, 2005 and before January 1, 2008. The credit may not be claimed for property placed in service after December 31, 2007.

Definition of clean fuel is any fuel that consists of at least 85% ethanol, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas or hydrogen and any mixture of diesel fuel and biodiesel containing at least 20% biodiesel.)

Renewable Fuels Standard

Renewable Fuels Program

- Established in Energy Policy Act of 2005
- What is the Renewable Fuel Standard?
- Sets forth phase-in for fuel volumes over 7 years, beginning with 4 billion gallons by 2006 and ending at 7.5 billion gallons in 2012
- Directs EPA to publicize regulations to apply to refiners, blenders and importers
- Creates a 1-year credit trading program

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- The Energy Policy Act of 2005 includes several important ethanol provisions. The Act contains a Renewable Fuels Standard which will double America's demand for ethanol to at least 7.5 billion gallons annually by 2012. The Renewable Fuels Standard, or the RFS, is the most important public policy goal of the U.S. ethanol industry. A RFS would require that a certain percentage of motor fuel in the U.S. must be obtained from renewable sources, such as ethanol or biodiesel.
- The RFS requires that at least 4 billion gallons of ethanol and biodiesel be used in 2006, ramping up to at least 7.5 billion gallons in 2012. The Energy Information Administration estimates the 7.5 billion gallons per year RFS will reduce oil consumption by 80,000 barrels of oil a day by 2012.
- The Environmental Protection Agency (EPA) will be responsible for implementing and enforcing the RFS program. EPA will promulgate rules requiring refineries, blenders, distributors, and importers to introduce or sell volumes of ethanol and biodiesel in accordance with the annual renewable fuels schedule. The RFS will be implemented no later than one year after the date of enactment of August 8, 2005. If EPA fails to issue regulations to implement the RFS, the law contains a failsafe that requires ethanol and biodiesel to comprise 2.78% of the U.S. fuel supply in 2006 – approximately 4 billion gallons.
- One of the main features of the RFS will be a credit trading program providing refiners the flexibility to use ethanol where it makes the most geographic and economic sense. The rules for issuing and trading credits will be established by the EPA within one year of enactment – by August 2006. A refiner or other regulated entity generates a credit by using one gallon of ethanol or generates 2.5 credits by using one gallon of cellulosic ethanol. Excess credits are generated when a regulated entity uses more ethanol than necessary to meet its minimum annual requirement. During this 12 month lifespan of the credit, it may be traded among regulated parties.

Renewable Fuels Standard, cont.

Schedule for Fuel Volumes

Year	Renewable Fuels
2006	4.0 billon gallons
2007	4.7 billion gallons
2008	5.4 billion gallons
2009	6.1 billion gallons
2010	6.8 billion gallons
2011	7.4 billion gallons
2012	7.5 billion gallons

The slide shows the schedule for meeting the Renewable Fuels Standard.

Renewable Fuels Standard, cont.

Cellulosic Biomass Program

- **New Cellulosic and Municipal Solid Waste Loan Guarantee - $250 million**
- **Cellulosic Biomass Ethanol Grants - $1.05 billion**
- **Cellulosic Biomass Ethanol Grants in RFG States - $650 million**
- **Research Grants in RFG States - $150 million**
- **Advanced Biofuel Technologies Program - $550 million**

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Funding of the following programs is through authorization of an appropriation bill approved by Congress.

Cellulosic and Municipal Solid Waste Loan Guarantee Program - $250 million to be established by the Department of Energy to provide loan guarantees for the construction of facilities that convert municipal solid waste and cellulosic biomass into ethanol and other commercial byproducts.

Cellulosic Biomass Ethanol Grants Program - $1.05 billion to be established by the Department of Energy to merchant producers of cellulosic ethanol for facility construction. ($250 million in 2006, $400 million in 2007, $400 million in 2008).

Cellulosic Biomass Ethanol Grants in RFG States Program - $650 million to be established by the Department of Energy to merchant producers of cellulosic ethanol for facility construction. ($250 million in 2006, $400 million in 2007).

Research Grants in RFG States Program - $150 million to be established by EPA to provide research grants for renewable fuels production in RFG states. ($25 million per year 2006-2010).

Advanced Biofuel Technology Program - $550 million to be established by EPA to fund projects to convert little-used cellulosic biomass feedstocks into ethanol and useful co-products. ($110 million for years 2005 -2009).

As I mentioned earlier, these programs are subject to authorizations of appropriations by Congress and therefore may not yet have the funding.

Renewable Fuels Standard, cont.

Sugar to Ethanol Program

- **Creates a $36 million program to convert sugar cane to ethanol in Hawaii, Florida Louisiana and Texas**
- **Creates a $250 million loan guarantee program for sugar to ethanol facilities**
- **Creates a $50 million loan guarantee program for sugar cane to ethanol facilities**

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The Department of Energy is authorized to create a $36 million program to convert sugar cane to ethanol in Hawaii, Florida, Louisiana, and Texas; provide loan guarantees in the amount of $250 million to carry out commercial demonstration projects for ethanol derived from sugarcane, bagasse, and other sugarcane by-products; and create a $50 million loan guarantee program for sugarcane to ethanol facilities. However, funding of these programs is also subject to authorization of appropriations.

Renewable Fuels Standard

The RFS plays an important role for U.S. energy independence, economic prosperity, and a clean environment.

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The Renewable Fuel Standard (RFS) plays an important role for U.S. energy independence, economic prosperity, and a clean environment.

Because the RFS will result in the increased production of homegrown fuels, its passage allows the U.S. to take a meaningful step toward energy independence. The RFS entrusts ethanol with a significant role in America’s new energy policy and helps decrease dependence upon foreign supplies of oil.

The RFS is critically important to long-term growth in the U.S. ethanol industry and will encourage greater investment in ethanol production facilities. U.S. ethanol plants create good jobs and provide a real economic stimulus for rural communities. Passage of the RFS would create over 200,000 jobs nationwide and benefit agricultural producers.

Finally, the RFS increases the production of fuels that are derived from plants that harness their energy from the sun. Fuels such as ethanol reduce greenhouse gas emissions and other toxic substances and result in measurable improvements in air quality.

The RFS approach would be based on a flexible requirement spread across the entire gasoline pool that would require a percentage of fuels to be renewably derived. The RFS will be a user-friendly program based upon averaging, banking, and trading credits—these credits would give the petroleum industry the flexibility necessary to allow ethanol to be used where it makes the most sense.

More Information

- **U.S. Department of Energy, Office of Biomass Program -** **http://www.eere.energy.gov/biomass/federal_biomass.html**
- **Renewable Fuels Association -** **www.ethanolrfa.org**
- **National Ethanol Vehicle Coalition -** **www.e85fuel.com**
- **Governors' Ethanol Coalition -** **http://www.ethanol-gec.org/index.htm**
- **American Coalition for Ethanol -** **www.ethanol.org**

For more information on any of these renewable tax provisions or programs, you can visit the following websites.

In addition, remember to always go to the Internal Revenue Service for any tax credit issues.